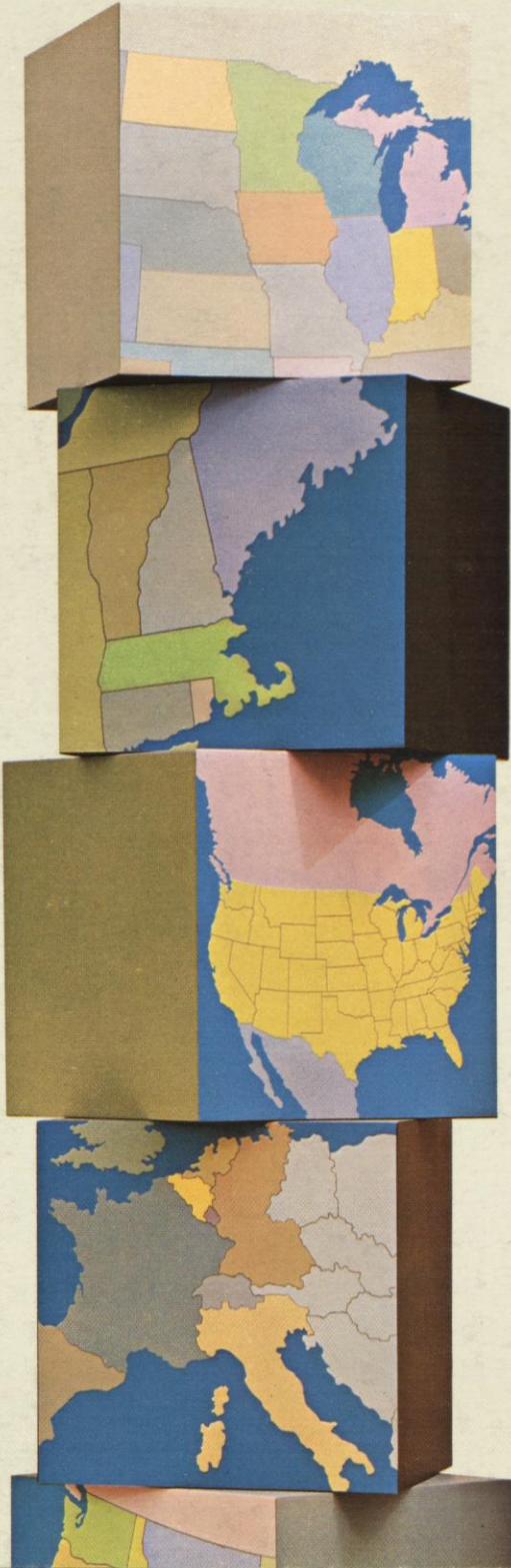


JEWEL TEA CO., INC.

ANNUAL REPORT 1963



RESULTS IN BRIEF

(Information for each year includes Star Market Co. which was merged into Jewel on January 31, 1964)

	<i>52 Weeks Ended Feb. 1, 1964</i>	<i>53 Weeks Ended Feb. 2, 1963</i>
Retail sales.....	\$747,536,433	\$709,503,064
Earnings:		
Before federal income taxes.....	\$ 21,749,601	\$ 24,323,366
Net for the year.....	11,135,601	11,850,366
Per cent to sales and revenues.....	1.5%	1.7%
Earned per share of common stock.....	\$ 2.70	\$ 2.88
Cash dividends paid per share of common stock.....	\$ 1.60	\$ 1.60
New property, plant and equipment (net)	\$ 13,141,907	\$ 15,297,636
Depreciation, amortization and retained earnings.....	\$ 13,118,427	\$ 13,457,906
	<i>As of Feb. 1, 1964</i>	<i>As of Feb. 2, 1963</i>
Net working capital.....	\$ 69,957,662	\$ 48,040,282
Ratio of current assets to current liabilities.....	2.3 to 1	1.8 to 1
Operating units:		
Supermarkets.....	334	328
Home Service Routes.....	2,031	1,946
Retail Drug Stores.....	53	41
Self-Service Department Stores.....	9	5
Candy—Ice Cream—Bakery— Luncheon Shops.....	61	66
Stockholders.....	12,236	12,369
Common shares outstanding.....	4,045,691	4,042,130
Preferred shares outstanding.....	50,947	53,744
Full-time employees.....	14,256	13,205

CONTENTS

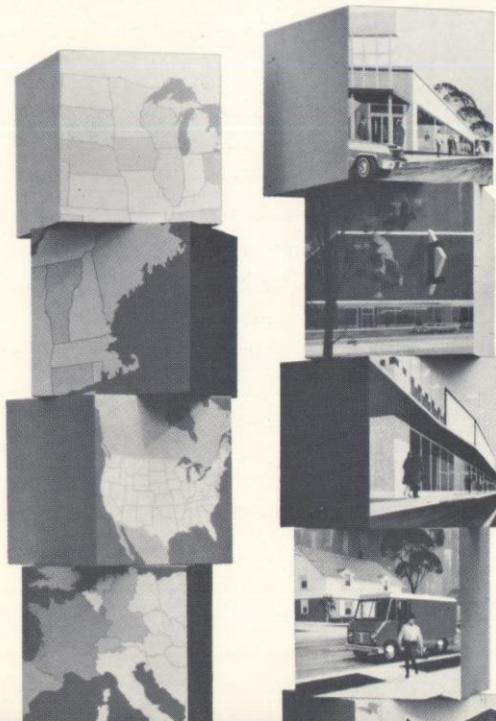
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MIDWEST
Supermarkets
Drug-Variety Stores
Self-Service Department Stores

NEW ENGLAND
Supermarkets
Ice Cream—Sandwich Shops
Self-Service Department Stores

43 STATES
Home Service Routes

COMMON MARKET
Supermarkets
Self-Service Department Stores



Supermarkets

Drug-Variety
Stores

Self-Service
Department
Stores

Route Trucks

The cover portrays Jewel's diversification by types of shopping facilities and by geographic areas.

IN ADDITION TO CONTINUED DEVELOPMENT of Jewel's long established businesses, 1963 was a year of further geographic and merchandise diversification suitable for self-service retailing. Natural developments still ahead may include additional geographic diversification through pooling of interests with strong retailers, particularly in regional growth areas.

Retail sales reached a new record, totaling \$747,536,433 for the 52-week fiscal year ended February 1, 1964 compared with \$709,503,064 in the previous fiscal year which covered 53 weeks. The increase was \$38,033,369 or 7.1% on a weekly average basis. Net earnings were \$11,135,601 compared with \$11,850,366 a year ago and amounted to \$2.70 per share of common stock compared with \$2.88 per share in 1962. Operating losses, including all start-up costs, in our two new major areas of activity, Turnstyle Family Centers and Chicago Osco Drug Stores, amounted to \$.28 per share.

The foregoing results and all other comparisons in this report reflect the pooling of interests with Star Market Co. which was effected as of January 31, 1964.

In the past year 21 new Jewel, Eisner and Star supermarkets, 12 Osco self-service drug stores or drug departments in Jewel supermarkets, 4 Turnstyle Family Centers, 7 Brigham's candy-ice cream stores, and 92 new Home Service Routes were opened. Fifteen outmoded supermarkets, 12 small bakery shops in the Brigham's system and 7 Home Service Routes were closed.

In 1964 we expect to open 13 Jewel or Eisner supermarkets; 17 Osco Drug Stores or drug departments in new or existing supermarkets; 5 Star supermarkets, one Turnstyle Family Center and at least 8 Brigham's shops in the New England area; and 75 Home Service Routes.

In planning for the future, our approach has been geared to the changing desires of consumers. We have been impressed in recent years by the popularity of one-stop shopping, evidenced in the growth of shopping centers, and also of one-store shopping, as in the self-service department stores with supermarkets and combination supermarkets with drug and variety lines. Accordingly, we developed the Turnstyle Family Center of 100,000 square feet or more, which offers under one roof hard lines, soft lines and a supermarket, and is intended to appeal to customers within a wide trading area. On the other hand, the Jewel-Osco combination supermarket-drug-variety stores of 20,000 to 30,000 square feet are designed to satisfy a broad variety of the everyday shopping needs of a particular neighborhood. In the meantime, demand continues for traditional Jewel, Eisner and Star supermarkets, especially in shopping center developments; for Osco Drug Stores; for Brigham's ice cream-candy-bakery-luncheon shops; and for additional Home Service Routes, our original business.

March 18, 1964

MANAGEMENT'S REPORT



*Franklin J. Lunding, Chairman (left)
and George L. Clements, President*

*Management's Report
Continued*

Underlying the development of our retail store businesses are three basic concepts which we believe are fundamental to the success of retailing. One is location. The finest store cannot be successful in a poor location. Because of the importance of location from an operating standpoint and because unconsolidated earnings are being accumulated for the benefit of stockholders (the equivalent of 10¢ per share in 1963), a separate section in this report is devoted to Real Estate Operations. A second requisite to success is the reputation for good value which comes from efficient operations, consistent quality of merchandise and service, and integrity in dealing with the public. It is our aim to maintain such a reputation earned in our established operations and to build such a reputation in our new businesses, even though it will take time and initial operating losses to do so. The third factor in retailing, by no means the least important, is the performance and high morale of people throughout the organization which assures pleasant shopping experiences for our customers.

No one element of this tripartite approach to retailing will guarantee success, for they are interdependent. Our employees recognize the importance of these fundamentals in achieving greater earnings for the Company, and expanded opportunities for themselves.

We are encouraged by the sales results of the new Turnstyle and Chicago Osco units, though it is obvious that their start-up costs and operating losses were a burden to our business this past year. One of our goals in the current year is to make these operations profitable.

The dedicated efforts of thousands of men and women have contributed much to the growth of your Company. We are grateful for their interest and proud of their accomplishments. We know they are also proud to be a part of Jewel and its future.

R. L. Clements

President

FOR THE BOARD OF DIRECTORS

J. L. Lanning
Chairman

STORE OPERATIONS IN THE MIDWEST in 1963 were marked by continued progress of the Company's established businesses: Jewel supermarkets centered in the Chicago Metropolitan Area, Eisner supermarkets in central Illinois and western Indiana, and Osco self-service drug stores in 36 Midwest cities outside the immediate Chicago Area. More significant, however, is that the merchandising and operating precepts underlying the development of these businesses over a long period of years were extended in 1963 to our newer Midwest ventures—the Turnstyle Family Centers and the Chicagoland self-service drug stores and drug-variety departments in Jewel supermarkets. These latter businesses achieved encouraging customer acceptance in 1963 and contributed importantly to the Company's overall sales gain. However, because of heavy pre-opening expenses and initial operating losses, all of which have been charged off, these newer ventures reduced overall earnings.

Osco Drug, Inc.

Osco Drug, Inc. is a wholly-owned subsidiary which at the end of the year operated 37 Osco self-service drug stores in 36 moderate-size cities outside of Chicago, an increase of three from a year ago. Typically, these "Main Street" stores are located in the main downtown shopping districts of their respective communities. The manager of each store operates with a good deal of autonomy to meet local conditions.

Osco Drug Stores carry a wide selection of merchandise lines in addition to conventional drug-store items. They give special emphasis to prescriptions. It is a notable achievement that in the past year prescription volume was up 18.2% from a year ago for the 30 Osco stores in operation throughout 1962 and 1963.

The latest Osco Drug Store was opened in Minot, North Dakota, on February 18, 1964, bringing the number of stores in operation to 38 and the localities served to 37. Further expansion is planned for 1964 and subsequent years. In addition, the Osco organization is contributing people and experience to the Chicago Area drug and general merchandise development.

Jewel and Eisner Supermarkets

At the close of the fiscal year there were 299 Jewel and Eisner supermarkets in the Midwest. Seventeen new stores were opened during the year and 13 were closed, a net gain of 4. Effective March 9, 1964, 5 stores in the Peoria area of Illinois were sublet to another operator who purchased the equipment at book value and the merchandise at cost. These stores had been unprofitable since they were opened in 1959.

In recent years grocery wholesale and cooperative groups have shown substantial growth. In 1963 we converted our Eisner operations to a wholesale basis to serve our Eisner stores and others in the same territory. At the end of the fiscal year we were serving 29 wholesale accounts. Results have been encouraging and we expect to add more accounts to this operation in 1964.

MIDWEST



A collage of vintage newspaper clippings from the 1940s and 1950s, featuring various grocery store advertisements for Jewel, Oscar, and Tide brands. The ads promote products like meat, soap, detergent, and food items, often highlighting 'thoughtfulness' and 'value'.

These advertisements illustrate efforts made to assure customers that they receive not only good merchandise and low prices but also additional shopping satisfactions.

*Chicago Drug Stores
and Turnstyle Family Centers*

Our Chicago drug-variety development grew substantially in 1963. We started the year with 7 Osco Drug Stores in the Chicago Area, of which 5 were adjacent to Jewel supermarkets and 2 were drug-variety departments in Jewel supermarkets using common check-outs, exits and entrances. At the end of the year there were 16 units in the Chicago Area, of which 7 were separate stores and 9 were departments within Jewel supermarkets.

Four Turnstyle Family Centers were opened in the Midwest in 1963. Two were opened in the Chicago Area in March 1963, a third in Moline, Illinois in May, and a fourth in Davenport, Iowa in August. There are now 5 Turnstyles in the Midwest, including the store opened in Racine in March, 1962. Each of these units is 100,000 square feet or more, which compares with approximately 15,000 square feet for the typical Jewel supermarket opened in 1963 and 25,000 square feet for the typical Jewel-Osco supermarket-drug combination. The Turnstyle Family Center incorporates a supermarket on one side and a large general merchandise section on the other, each with separate checkouts. The lobby area between provides an attractive store entrance and an area for seasonal promos.

tions and displays. There is an elevated luncheon shop at the rear of the lobby area, which affords opportunities for rest and snacks while shopping.

In the newer Turnstyle and Osco Chicago-based outlets, it is our aim to build a reputation for value, variety, dependable quality and fair dealing. We intend to create an atmosphere which will result in pleasant shopping experiences.

Responsibility for operation of the Midwest Turnstyle stores has been transferred to the Vice President and General Manager of the Food Stores, following a similar step a year ago with the Chicago Area Osco store operations. In this way the supervision of Jewel supermarkets, Chicago Osco Drug Stores or departments, and Midwest Turnstyle Family Centers can be better coordinated and controlled.

Distribution Center for Perishable Products

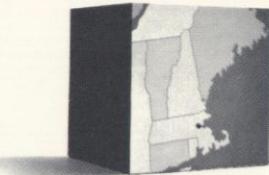
This Spring we will start construction of new distribution-center facilities at Melrose Park, Illinois, the present site of our 700,000 square-foot dry grocery distribution center and of our bread and pastry bakeries which occupy approximately 200,000 square feet. The new facilities will include 210,000 square feet for fresh fruits and vegetables, dairy and delicatessen items, and 70,000 square feet for frozen foods. At the same time the Melrose Park office will be expanded by 60,000 square feet to a total of 135,000 square feet. Completion of these new facilities is expected in the Spring of 1965, at which time use of present facilities in other locations will be terminated. In addition to operating economies, this consolidation will make it possible to have on this 92-acre site with 35 acres of buildings virtually all office and warehousing operations for the Midwest retail stores other than those served from the Eisner distribution center at Champaign, Illinois.

A Look Ahead

Plans for expansion of the Midwest supermarket and drug store businesses include the following for 1964:

	<i>Number of Units</i>
Supermarkets	5
Supermarket-drug-variety combinations	8
Supermarkets remodeled to add drug-variety departments	3
Free-standing drug-variety stores (Chicago and "Main Street")	6

NEW ENGLAND



John M. Mugar (left), Executive Vice President and Stephen P. Mugar, President of Star Market Co.

Star also emphasizes quality.



A SIGNIFICANT EVENT OF 1963 was Jewel's pooling of interests with Star Market Co., Boston, which on January 31, 1964 became a wholly-owned subsidiary of Jewel. Star will constitute an important element of our business. The exchange of Jewel stock for that of Star brings into the Jewel system one of the strongly established food chains in New England—an organization which operates 35 supermarkets in Massachusetts, Maine, New Hampshire and Rhode Island. Star's name has long been respected in the grocery industry. In addition to its reputation for quality and service, Star is known for imagination and a willingness to innovate. Star has been able for a number of years to pursue a vigorous expansion program without sacrifice of its basic strengths or objectives. It will continue to operate under its present name and management.

Our new association with Star provides opportunity for growth and development in the important New England market where we have previously been represented by 4 Turnstyle self-service department stores and our developing Home Service Routes business. Star expects to establish its own supermarkets in conjunction with existing and planned Turnstyle Family Center units in this area.

Star also brings to us an important operating division consisting of the Brigham's, Inc. chain of 61 ice cream, confectionery, bakery and luncheon shops throughout the Greater Boston Area. For more than 35 years Brigham's, which became a wholly-owned subsidiary of Star in 1962, has enjoyed a reputation for quality and leadership. To thousands of people in the Boston Area "a soda at Brigham's" or "a box of chocolates from Brigham's" means something special.

The Star organization strongly resembles Jewel in its historical pattern of development, its standards, objectives, and operating philosophy. Star will, in two years, celebrate its 50th Anniversary.

A Look Ahead

As to the New England market, the outlook is for 5 new supermarkets, 8 Brigham's shops and one Turnstyle Family Center in 1964. Plans for new warehousing and other supporting facilities for this expanding group are also being studied.

This is a new Brigham's Candy-Ice Cream Bakery-Luncheon Shop.



HIGHER SALES FOR JEWEL'S HOME SERVICE ROUTES in 1963 demonstrate that more than 2,000 Route Operators who serve Jewel customers in 43 states and the District of Columbia, together with nearly 2,000 other Jewel people serving in supporting operations, are providing a welcome direct-to-the-home service. 1963 was the first full year of the Cooperative Franchise Plan, under which each route is its own profit center. Last year was marked by continued reductions in turnover of customers and route operators, as well as in better control of expenses at the route level. This progress enabled management to pursue an orderly program of growth in three dimensions: 1) Development of people for enlarged responsibilities, 2) Building of new routes, and 3) Development of existing routes to higher levels of profitability.

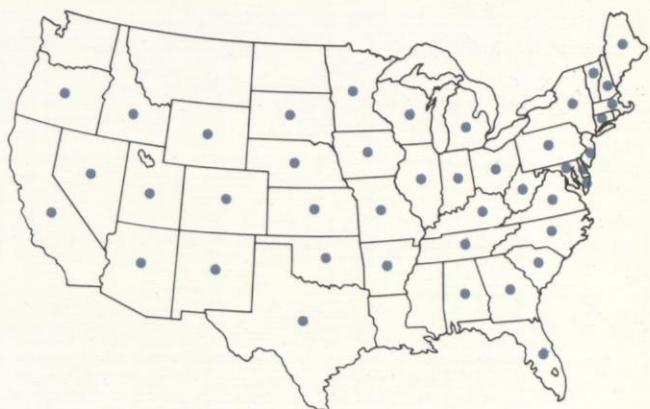
Special effort has been devoted to selecting, developing, and providing new incentives for assistant managers in our field organization. We expect to meet 1964's opportunities with a reduced field management staff, despite a sizable new route program. We also have completed installation of an attractive new pay program for our new customer solicitors, called Route Builders, whose jobs today have increased dignity and opportunity. We enter 1964 with attractive earnings and job opportunities in all parts of the Routes organization, without adding materially to overall expenses.

As in retail stores, successful routes depend upon location. The planning of a new route involves careful study of population and other market factors. In all, the building of a new Jewel route requires about six months of specialized effort. For the most part, new routes are being located in the suburbs around major metropolitan areas. Examples include Phoenix-Tucson, Dallas-Fort Worth, Hartford-Boston, New York City and Chicago. Ninety-two new routes were built in 1963 and 7 were closed, a net gain of 85. Seventy-five new routes have been programmed by location and start-up dates for 1964.

A Look Ahead

Sales are budgeted to increase again in 1964 with improvement in earnings as recently built routes begin to make a contribution. The Home Service Routes, Jewel's original business, are in a strong position to serve the expanding needs of the growing number of customers who are seeking service in their homes, are accustomed to catalog shopping, and demand quality values.

HOME SERVICE ROUTES



• The 43 states and the District of Columbia in which Jewel Home Service Routes operate.

EUROPEAN COMMON MARKET



BELGIUM

Jewel has a 36% interest in Supermarchés, G.B., organized in 1960 to operate supermarkets in Belgium, and an 18.75% interest in Superbazars, organized in 1961 to operate self-service department stores in Belgium and other countries. At the close of the year, 17 Supermarchés and 5 Superbazars were in operation, increases of 4 Supermarchés and 1 Superbazar during the year. Of the 17 Supermarchés, 5 are located in Superbazar self-service department stores.

We are pleased to report that operations of these companies made substantial progress in the past year. All stores open a year or more registered sales gains. For the fiscal year ended January 31, 1964, sales for Supermarchés, G.B. were up 34% from the previous year and those for Superbazars rose 46%. Supermarchés, G.B., in its fourth year of operation, showed a profit. Superbazars, completing its third year of operation, looks forward to profitable results in 1964.

Supermarchés expects to open 10 new stores in 1964 while location research for new Superbazars stores is well under way. Estimates indicate that there is room in Belgium for a total of 350 to 400 supermarkets, of which we expect Supermarchés, G.B. to obtain a reasonable number. It is expected that Supermarchés' earnings will be reinvested in the expansion program. We are also planning an additional investment of approximately \$1,200,000, representing our pro rata share of the new equity capital required.

ITALY

Almost two years ago, Star Market Co. began consideration of a joint venture in supermarket development with the Motta Company of Milan, Italy. Motta is one of the oldest and best-known Italian producers of quality ice cream, confectionery and bakery goods and an extensive line of other food products. Motta also operates fine restaurants and has long and intimate contact with the Italian food business.

A new corporation—Societa Italo Americana Supermarkets—S.I.A.S.—has been planned, with Jewel to have a 49% interest and Motta 51%. Jewel's initial commitment is \$300,000 and advisory personnel from Star of Italian background, with fluency in the language, and experience in the supermarket business. Motta will provide staff support on such matters as law, accounting, finance and taxation.

IN RETAILING, the importance of location is universally recognized. Some stores may fail in good locations but few stores survive bad ones.

In Jewel, the function of selecting and acquiring store locations and of developing outstanding store facilities commands high management priority. As competition has intensified, the task of finding, developing and financing good new locations in the best long-term interest of Jewel stockholders has become more challenging and has received close attention.

In seeking to attain our objective of superior facilities at well located sites to serve numerous customers conveniently, we see five primary needs. First is a vigorous and continuous search for new stores sites by competent real estate people; second is the assembly of detailed statistical data and other pertinent facts by trained research personnel; third is the exercise of sound judgment by experienced and well informed management; fourth is the building of a technically-qualified organization for the planning and construction of attractive and efficient physical facilities; and fifth is the development of sound financing.

Under a financing plan in use since 1957, Jewel purchases and develops a retail store facility and sells it to an affiliated real estate corporation at approximately 100% of Jewel's investment. Jewel then enters into a net lease and, using the lease as collateral, the real estate corporation borrows the funds needed over and above a minimum equity investment by Jewel.

The rents, comparable to amounts which would have to be paid to outside developers, are sufficient to enable the real estate corporations to meet their obligations for principal and interest, taxes and miscellaneous expenses. Renewal options are granted at substantially reduced rents for periods after the loans have been fully paid. Repayment of these loans is generally made over a 20-year period. Through the use of this financing plan, equities for our stockholders are being accumulated in the real estate corporations.

Since 1957 a total of 80 real estate corporations has been formed. Three of these were in connection with the construction of division offices and warehouses for the Home Service Department of the business and the others are for retail store locations. In a few instances this plan has been used for the development of small shopping centers where the entire shopping center is leased to Jewel which in turn subleases space to other tenants.

As of December 28, 1963, the consolidated balance sheet of all real estate affiliates shows total assets of \$29,779,000 and accumulated earnings of \$1,237,000, including net earnings of \$407,000 for the year just ended, which is equivalent to \$.10 per share of Jewel common stock. Additional details as to the real estate affiliates are set forth in the notes to the financial statements, pages 14 and 15.

REAL ESTATE ACTIVITIES



Real Estate Committee at one of its Bi-Weekly Meetings.
Pictured from the left, clockwise, are J. J. Schnur, Real Estate Attorney; J. A. Brewer, Vice President, Store Meat Operations; L. J. Skyles, Vice President, Chicago Oso Drug Stores; F. A. Woerthein, Vice President, Store Grocery Operations; C. R. Johnson, Assistant to the Vice President, Real Estate and Construction; R. D. Sturtevant, Vice President, Real Estate and Construction; N. O. Walker, Manager, Real Estate Division; H. R. Rasmussen, Vice President, General Manager, Food Stores; D. S. Perkins, Executive Vice President; G. L. Clements, President; and E. E. Hargrave, Vice President, Public Affairs.

Not Shown: J. M. Friedlander, Chairman of the Finance Committee; Paul Stratton, Chairman, Board of Directors (Oso Drug, Inc.); H. O. Wagner, Vice President, Finance.

JEWEL TEA CO., INC.

ACCOUNTANTS' REPORT

TOUCHE, ROSS, BAILEY & SMART
CERTIFIED PUBLIC ACCOUNTANTS

March 13, 1964

*To The Stockholders
and Board of Directors,
Jewel Tea Co., Inc.:*

We have examined the accompanying consolidated balance sheet of Jewel Tea Co., Inc. and subsidiaries as of February 1, 1964, and the related statements of income and accumulated earnings and source and use of funds for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Jewel Tea Co., Inc. and subsidiaries at February 1, 1964 and the consolidated results of their operations and changes in financial position for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

To: Touche, Ross, Bailey & Smart

CERTIFIED PUBLIC ACCOUNTANTS

CONSOLIDATED INCOME ACCOUNT

AND ACCUMULATED EARNINGS—UNAPPROPRIATED

(Includes Star Market Co. in both years)

	52 Weeks ended February 1, 1964	53 Weeks ended February 2, 1963
Sales and Revenues:		
Retail sales.....	\$747,536,433	\$709,503,064
Wholesale sales.....	2,421,273	1,613,405
Interest income.....	747,091	502,399
Total sales and revenues.....	<u>750,704,797</u>	<u>711,618,868</u>
Cost of Doing Business, including depreciation and amortization of \$8,617,029 in fiscal 1963 and \$7,875,253 in fiscal 1962:		
Cost of goods sold.....	591,379,345	569,566,827
Selling, general and administrative expenses.....	135,051,410	115,855,209
Provision for doubtful accounts.....	907,920	1,051,809
Interest on indebtedness.....	1,616,521	821,657
	<u>728,955,196</u>	<u>687,295,502</u>
Earnings Before Federal Income Taxes.....	21,749,601	24,323,366
Provision For Federal Income Taxes.....	<u>10,614,000</u>	<u>12,473,000</u>
Net Earnings.....	11,135,601	11,850,366
Accumulated Earnings—unappropriated, beginning of year:		
Jewel.....	49,100,548	44,725,655
Star.....	5,885,446	4,675,975
	<u>66,121,595</u>	<u>61,251,996</u>
Add—net earnings of Star for the 18 weeks ended February 2, 1963.....		534,101
Deduct:		
Cash dividends declared:		
Jewel preferred stock.....	194,401	252,016
Jewel common stock.....	5,883,692	5,678,799
Star common stock.....	556,110	615,707
Transactions in treasury stock—Star.....	53,221	253,581
	<u>6,687,424</u>	<u>6,800,103</u>
Accumulated Earnings—unappropriated, end of year.....	<u>\$ 59,434,171</u>	<u>\$ 54,985,994</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(Includes Star Market Co. at both dates)

ASSETS

	<i>February 1, 1964</i>	<i>February 2, 1963</i>
Current Assets:		
Cash	\$ 16,289,306	\$ 18,943,814
Marketable securities and certificates of deposit	21,668,633	12,408,871
Accounts receivable, less allowances	15,243,138	14,115,652
Inventories, at lower of first-in, first-out cost or market	62,905,999	50,698,321
Temporary investment in retail store properties	5,941,278	6,580,099
Prepaid expenses and supplies	2,751,476	2,544,158
Total current assets	124,799,830	105,290,915
Deferred Charge—		
Premiums advanced to customers	1,639,602	1,555,449
Other Investments	4,411,279	4,178,893
Property, Plant and Equipment (at cost):		
Buildings	18,541,128	18,563,327
Equipment and leasehold improvements	95,862,800	85,706,762
	<hr/>	<hr/>
114,403,928	104,270,089	
Less allowance for depreciation and amortization	52,056,379	46,738,371
	<hr/>	<hr/>
62,347,549	57,531,718	
Land	3,871,969	4,162,922
	<hr/>	<hr/>
Total property, plant and equipment	66,219,518	61,694,640
Goodwill	1	1
	<hr/>	<hr/>
	\$197,070,230	\$172,719,898
	<hr/>	<hr/>

JEWEL TEA CO., INC.

LIABILITIES

	<i>February 1, 1964</i>	<i>February 2, 1963</i>
Current Liabilities:		
Accounts payable and accrued expenses.....	\$ 30,112,168	\$ 30,497,941
Dividends payable.....	1,666,039	1,650,408
Accrued federal, state and local taxes.....	11,390,832	13,535,545
Accrued payrolls and profit sharing.....	8,607,358	9,129,717
Long-term indebtedness due within one year.....	3,065,771	2,437,022
Total current liabilities.....	54,842,168	57,250,633
Long-Term Indebtedness, due after one year.....	35,973,956	15,234,056
Deferred Federal Income Taxes.....	6,009,761	4,357,213
Stockholders' Investment:		
Preferred stock—3¾% cumulative \$100 par value—authorized and issued 51,000 shares at February 1, 1964.....	5,100,000	5,850,000
Common stock—\$1 par value—authorized 7,500,000 shares; outstanding 4,045,691 shares at February 1, 1964.....	34,465,050	34,194,131
Accumulated earnings—reserved for self-insured losses and general contingencies.....	1,250,000	1,250,000
Accumulated earnings—unappropriated.....	59,434,171	54,985,994
Preferred stock in treasury, at cost.....	(4,876)	(402,129)
Total stockholders' investment.....	100,244,345	95,877,996
	<u><u>\$197,070,230</u></u>	<u><u>\$172,719,898</u></u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED SOURCE AND USE OF FUNDS

52 Weeks Ended February 1, 1964

(Includes Star Market Co.)

Source of Funds:

Net earnings.....	\$11,135,601
Depreciation and amortization.....	8,617,029
Increase in deferred federal income taxes	1,652,548
	21,405,178
New long-term debt.....	23,869,000
Sale of common stock.....	271,453
	<u>\$45,545,631</u>

Use of Funds:

Dividends to owners of the business.....	\$ 6,634,203
New property, plant and equipment (net).....	13,141,907
Increase in cash and marketable securities.....	6,605,254
Increase in accounts receivable.....	1,127,486
Increase in inventories.....	12,207,678
Decrease in other liabilities.....	3,037,214
Payments on long-term debt.....	2,500,351
Acquisitions of preferred stock.....	254,564
All other (net).....	36,974
	<u>\$45,545,631</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MERGER WITH STAR MARKET CO.

On January 31, 1964, Star Market Co. merged with Jewel Tea Co., Inc., in connection with which 489,311 shares of Jewel common stock were exchanged for all of the outstanding common stock of Star. This merger has been treated as a pooling of interests for accounting purposes and the financial statements of the companies have been combined for the fifty-two weeks ended February 1, 1964. The income account of Star Market Co. for the fifty-two weeks ended September 29, 1962, its former fiscal year, has been combined with that of Jewel for the fifty-three weeks ended February 2, 1963, and the earnings of Star for the eighteen weeks ended February 2, 1963 have been entered directly into accumulated earnings.

OTHER INVESTMENTS

Real Estate Corporations

Jewel has preferred stock interests, carried at a cost of \$850,750 at February 1, 1964, in eighty corporations from which certain retail stores and Home Service Routes field office-warehouses are leased. The preferred stock is non-voting with respect to directors, but may be converted into

common stock, upon payment of a 10% premium after ninety days notice. After such conversion, Jewel would own in excess of 99% of the common stock of such corporations. The presently outstanding common stock of the Real Estate Corporations is owned by Jewel T Foundation either directly or through intermediary corporations.

Each real estate corporation has obtained debt financing for a twenty-year term at rates varying from 4 5/8% to 5 1/2% with provisions for prepayment, usually after five years. Jewel has executed a net lease with each corporation at a rental sufficient to repay the amounts borrowed plus interest over the twenty-year term of the lease and the leases have been assigned to secure the debt.

The following condensed balance sheets set forth the combination of the accounts of Jewel with those of the Real Estate Corporations as they would appear if Jewel's preferred stockholdings were converted into a common stock interest:

	Jewel Tea Co., Inc. and subsidiary companies February 1, 1964	Real Estate Corporations December 28, 1963	Combined
ASSETS			
<i>(In thousands of dollars)</i>			
Current assets:			
Cash, marketable securities and certificates of deposit.....	\$ 37,958	\$ 1,348	\$ 39,306
Other current assets.....	86,842	149	80,682
	124,800	1,497	119,988
Deferred charge.....	1,639		1,639
Other investments.....	4,411		3,560
Property, plant and equipment, at cost.....	118,276	30,094	154,346
Less allowance for depreciation and amortization.....	52,056	1,812	53,903
	66,220	28,282	100,443
	<u>\$197,070</u>	<u>\$ 29,779</u>	<u>\$225,630</u>

LIABILITIES

Current liabilities:

Long-term indebtedness due within one year.....	\$ 3,066	\$ 1,029	\$ 4,095
Other current liabilities.....	51,776	502	51,910
	54,842	1,531	56,005

Long-term indebtedness due after one year.....	35,974	25,729	61,703
Deferred federal income taxes.....	6,010	429	6,439

Stockholders' investment:

Preferred stock issued.....	5,100	851	5,100
Common stock outstanding:			

Jewel.....	34,465		34,465
Real Estate Corporations (after elimination of intragroup holdings)...			

	2	2
Accumulated earnings.....	60,684	1,237

Preferred stock in treasury, at cost.....	(5)		(5)
100,244			

	2,090	101,483
<u>\$197,070</u>	<u>\$ 29,779</u>	<u>\$225,630</u>

Net earnings of the Real Estate Corporations amounted to \$407,000 for the 52 weeks ended December 28, 1963 and \$260,000 for the 52 weeks ended December 29, 1962.

Aggregate annual maturities of long-term debt of the Real Estate Corporations are as follows:

1965—\$1,068,000; 1966—\$1,119,000; 1967—\$1,171,000; 1968—\$1,227,000; and the balance through 1984.

Foreign

The Company's 36% interest in Supermarchés G.B., a Belgian corporation operating supermarkets in Belgium, is carried at cost of \$1,856,678. The Company expects to subscribe to additional shares at a cost of approximately \$1,200,000, maintaining its proportionate interest. An 18.75% interest in Superbazars, a Belgian corporation operating self-service department stores in Belgium, is carried at a cost of \$1,309,951.

LONG-TERM INDEBTEDNESS

Long-term indebtedness at February 1, 1964 includes the following:

	Rate	Total outstanding	Due within one year	Final maturity
Bank-administered trusts.....	4.5%	\$20,000,000		1987
Banks.....	3.25—4.75	6,000,000	\$2,000,000	1966
	4.75	1,000,000	200,000	1968
Insurance companies.....	2.85	3,500,000	500,000	1971
	3.75	3,478,200	217,400	1978
	5	2,500,000		1978
	4.125	422,500	57,000	1971
Mortgage notes.....	4.625	1,102,193	37,722	1982
	5.25	985,616	29,918	1983

Under terms of note agreements \$19,548,130 is not restricted for the payment of cash dividends on common stock.

DEFERRED FEDERAL INCOME TAXES

Deferred federal income taxes include deferred taxes arising from use of accelerated depreciation for tax purposes. The investment tax credit on qualified equipment purchases is being reflected in income over the approximate productive lives of the subject assets and the unamortized portion is also included in deferred federal income taxes.

PREFERRED STOCK

Under the sinking fund provisions relating to the preferred stock, the Company must acquire annually on or before each June 30 at least 1,500 shares. On January 31, 1964, the Company formally retired 7,500 shares of preferred stock then in the treasury, representing sinking fund requirements through June 30, 1965. On February 1, 1964,

there remained in the treasury 53 shares of preferred stock carried at cost of \$4,876.

COMMON STOCK AND RESTRICTED STOCK OPTION PLAN

The common stock account was increased during the year by 4,768 shares and \$271,453 through issuance to employees under a stock purchase plan. Additionally, in connection with the merger with Star Market Co., 489,311 shares of common stock were issued in exchange for all the outstanding stock of Star at a value of \$6,029,343 after deducting merger expenses of \$129,742. The plan of merger also provided for the retirement of 7,500 shares of Jewel preferred stock held in the treasury and the \$98,183 excess of par value over the cost of treasury shares retired has been credited to capital stock.

At February 1, 1964, there were 294,577 shares of common stock reserved, of which 62,238 were for employee stock purchase plan purchases, 126,000 shares were for issuance to profit-sharing trusts and 106,339 shares were for stock options described more fully below:

	Reserved	Granted	Available
Balance, February 2, 1963.....	64,650	36,400	28,250
Reserved during the year.....	31,750		31,750
Granted during the year.....		35,000	(35,000)
Conversion of Star stock options in connection with merger.....	9,939	9,939	
Cancelled during the year.....		(10,000)	10,000
Balance, February 1, 1964.....	106,339	71,339	35,000
Options exercisable at February 1, 1964.....		22,372	

Outstanding options as to 9,939 shares (converted from options to buy Star Market Co. shares) were granted at prices ranging from \$15.75 to \$62.95 per share; these options vary as to term and conditions, but all expire by 1970. Other outstanding options were granted at prices ranging from \$31.60 to \$61.04 per share, representing 95% or more of the market price on the date of grant, become exercisable in equal instalments over a four-year period and expire ten years from the date of grant.

LONG-TERM LEASES

Nearly all retail stores and the field office-warehouses for the Home Service Routes are under lease. A majority of the lease commitments are for ten years or less and the remainder, for the most part, cover periods up to twenty years. Annual minimum commitments for leases expiring beyond five years total approximately \$7,847,000 exclusive of real estate taxes, maintenance, insurance and contingent rentals based on sales, required by some leases. Rentals for leased properties were \$10,799,704 in 1963 and \$9,496,843 in 1962, including \$2,386,219 and \$1,632,876, respectively, paid to affiliated real estate corporations described above.

OFFICERS* AND PRINCIPAL OFFICES

IN MEMORIAM

We regret to report the death on January 30, 1964, of Robert W. Williamson, Secretary and General Counsel of the Company. During his almost 20 years of service he was a most valuable associate.

Corporate Offices	135 S. La Salle Street, Chicago, Illinois 60603
Franklin J. Lunding	<i>Chairman, Board of Directors and Chief Executive Officer</i>
George L. Clements	<i>President</i>
Joseph M. Friedlander	<i>Chairman, Finance Committee</i>
Edwin E. Hargrave	<i>Vice President, Public Affairs</i>
Paul Stratton	<i>Chairman, Board of Directors (Osco Drug, Inc.)</i>
William W. Tongue	<i>Economist</i>
Howard O. Wagner	<i>Vice President, Finance</i>
Administrative Headquarters	914 Merchandise Mart Plaza, Chicago, Illinois 60654
Harold G. Homuth	<i>Treasurer</i>
Walter E. Meyer	<i>Assistant Controller</i>

OPERATIONS

Donald S. Perkins	<i>Executive Vice President</i> 1955 West North Avenue, Melrose Park, Illinois
Midwest Stores Headquarters	1955 W. North Avenue, Melrose Park, Illinois 60160
Howard R. Rasmussen	<i>Vice President, General Manager, Food Stores</i>
Jo H. Armstrong	<i>Vice President, Eisner Operations (301 E. Wilbur Heights Road, Champaign, Illinois 61823)</i>
Harry G. Beckner	<i>Vice President, Sales, Food Stores</i>
John A. Brewer	<i>Vice President, Store Meat Operations</i>
Max E. Harnden	<i>President (Osco Drug, Inc.)</i>
George T. Hilden	<i>Vice President, General Merchandise</i>
Ronald L. Hileman	<i>Vice President, Grocery Merchandising, Food Stores</i>
L. Jack Skyles	<i>Vice President, Chicago Osco Drug Stores</i>
Lee D. Smith	<i>Vice President, Special Projects</i>
Frank L. Spreyer	<i>Vice President, Stores Mfg., Warehousing & Transportation</i>
Richard D. Sturtevant	<i>Vice President, Real Estate and Construction</i>
Fred A. Woerthwein	<i>Vice President, Store Grocery Operations</i>
John N. Balch	<i>Controller</i>
Grant C. Gentry	<i>Secretary and General Counsel</i>
Edward T. Vorbeck	<i>Assistant Secretary and Associate General Counsel</i>
Home Service Routes	
Headquarters	Jewel Park, Barrington, Illinois 60010
Weston R. Christopherson	<i>Vice President, General Manager, Routes</i>
Edward L. Johnson	<i>Vice President, Sales, Routes</i>
Herman T. Landon	<i>Vice President, Supply, Routes</i>
New England Stores	625 Mount Auburn Street,
Headquarters	Cambridge, Massachusetts 02138
Stephen D. Mugar	<i>President (Star Market Co.)</i>
John M. Mugar	<i>Executive Vice President (Star Market Co.)</i>

*Jewel Tea Co., Inc., unless otherwise indicated.

BOARD OF DIRECTORS

James L. Allen	<i>Chairman, Booz • Allen & Hamilton, Inc.</i>
George L. Clements	<i>President, Jewel Tea Co., Inc.</i>
John W. Evers	<i>Former President, Commonwealth Edison Company</i>
Joseph M. Friedlander	<i>Chairman, Finance Committee, Jewel Tea Co., Inc.</i>
William A. Gerbosi	<i>Independent Business Consultant</i>
Edwin E. Hargrave	<i>Vice President, Jewel Tea Co., Inc.</i>
A. Vernon Jannotta	<i>Independent Business Consultant</i>
Franklin J. Lunding	<i>Chairman, Board of Directors and Chief Executive Officer, Jewel Tea Co., Inc.</i>
Edward H. McDermott	<i>Senior Partner, McDermott, Will & Emery</i>
Stanley R. Miller	<i>Partner, Goldman, Sachs & Co.</i>
John M. Mugar	<i>Executive Vice President, Star Market Co.</i>
Stephen P. Mugar	<i>President, Star Market Co.</i>
Donald S. Perkins	<i>Executive Vice President, Jewel Tea Co., Inc.</i>
Howard R. Rasmussen	<i>Vice President, Jewel Tea Co., Inc.</i>
Frank L. Spreyer	<i>Vice President, Jewel Tea Co., Inc.</i>
Paul Stratton	<i>Chairman, Board of Directors, Osco Drug, Inc.</i>
Harold J. Szold	<i>Partner, Lehman Brothers</i>

ANNUAL MEETING

The annual meeting of stockholders will be held at 2:00 p.m. on Wednesday, June 17, 1964 at the Biltmore Hotel, New York, New York

TRANSFER AGENT

Manufacturers Hanover Trust Company,
40 Wall Street, New York, New York 10015

REGISTRAR

Bankers Trust Company
16 Wall Street, New York, New York 10015

STOCK LISTING

New York Stock Exchange

This report is submitted to the stockholders of the Corporation for their information and is not intended to be used in connection with the sale of or offer to sell any securities, nor is it intended to be information to be included in a prospectus within the meaning of the provisions of the Federal Securities Act of 1933, as amended.

JEWEL TEA CO., INC.

1961 1960 1959 1958† 1957 1956 1955 1954

\$638,273	\$596,966	\$562,505	\$534,921	\$493,497	\$442,508	\$394,750	\$355,057
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\$ 22,910	\$ 23,449	\$ 21,728	\$ 19,394	\$ 16,410	\$ 14,794	\$ 12,941	\$ 10,847
11,266	11,345	10,556	9,370	7,997	7,333	6,320	5,490
2.75	2.84	2.72	2.45	2.12	1.97	1.71	1.48
1.50	1.40	1.20	1.00	.98	.98	.98	.88

\$ 5,631	\$ 6,263	\$ 6,366	\$ 5,895	\$ 4,744	\$ 4,298	\$ 3,305	\$ 2,511
7,216	6,730	6,240	5,338	4,856	3,918	3,806	3,338

\$ 10,328	\$ 10,489	\$ 9,104	\$ 13,550	\$ 9,043	\$ 9,665	\$ 5,286	\$ 9,446
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\$ 51,286	\$ 49,953	\$ 45,873	\$ 39,693	\$ 35,178	\$ 32,616	\$ 33,264	\$ 27,313
163,155	153,598	129,765	122,092	105,824	99,317	86,841	77,176

\$ 18,459	\$ 21,133	\$ 19,582	\$ 20,338	\$ 16,161	\$ 14,339	\$ 13,777	\$ 9,615
5,537	5,691	5,748	5,803	5,832	5,904	6,595	6,745
83,006	74,587	66,059	56,873	50,007	45,101	40,087	36,833
20.65	19.01	17.42	15.23	13.63	12.52	11.28	10.43

4,020,344	3,923,463	3,792,556	3,733,395	3,669,363	3,601,414	3,553,977	3,531,253
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†53-week year; other years 52 weeks.

‡Adjusted for stock splits and stock dividends.

CONSOLIDATED TEN YEAR FINANCIAL SUMMARY*

(Total Dollars in Thousands, except per share figures)
(Includes Star Market Co.)

	1963	1962†
<i>For The Year</i>		
Retail sales	\$ 747,536	\$ 709,503
Earnings:		
Before federal income taxes	\$ 21,750	\$ 24,323
Net for the year	11,136	11,850
Earnings per common share‡	2.70	2.88
Dividends per common share‡	1.60	1.60
Retained earnings	\$ 4,501	\$ 5,583
Depreciation	8,617	7,875
New property, plant & equipment (net)	\$ 13,142	\$ 15,298
<i>At the Year End</i>		
Net working capital	\$ 69,958	\$ 48,040
Total assets	197,070	172,720
Long term debt	\$ 35,974	\$ 15,234
Preferred stock	5,095	5,374
Common stockholders' equity	95,149	90,504
Equity per common share‡	23.52	22.39
Number of common shares outstanding‡	4,045,691	4,042,130

**In May, 1962 the fiscal year of the Company was
changed to the Saturday nearest January 31 from
the Saturday nearest December 31.*

Bulk Rate
U.S. Postage
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